

# **LONG BEACH COMMUNITY COLLEGE DISTRICT**

Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, Second Extraordinary Session,  
and Chapter 1118, Statutes of 1987

*July 1, 2007, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

June 2013



**JOHN CHIANG**  
**California State Controller**

June 24, 2013

Roberto Uranga, President  
Board of Trustees  
Long Beach Community College District  
4901 East Carson Street  
Long Beach, CA 90808

Dear Mr. Uranga:

The State Controller's Office audited the costs claimed by the Long Beach Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, Second Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2007, through June 30, 2010.

The district claimed \$796,293 for the mandated program. Our audit found that \$48,745 is allowable and \$747,548 is unallowable. The costs are unallowable because the district understated authorized health service fees, and overstated services and supplies, indirect costs, and offsetting savings/reimbursements. The State paid the district \$772,068. The State will offset \$723,323 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/vb

cc: Eloy O. Oakley, Superintendent/President  
Long Beach Community College District  
Ann-Marie Gabel, Vice President, Administrative Services  
Long Beach Community College District  
Cindy Vyskocil, Associate Vice President, Human Resources  
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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Long Beach Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, Second Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2007, through June 30, 2010.

The district claimed \$796,293 for the mandated program. Our audit found that \$48,745 is allowable and \$747,548 is unallowable. The costs are unallowable because the district understated authorized health service fees, and overstated services and supplies, indirect costs, and offsetting savings/reimbursements. The State paid the district \$772,068. The State will offset \$723,323 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

## Background

Chapter 1, Statutes of 1984, Second Extraordinary Session, repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year for FY 1987-88 and for each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, Second Extraordinary Session, imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year for FY 1984-85 and for each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and for each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989, and January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2007, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Long Beach Community College District claimed \$796,293 for costs of the Health Fee Elimination Program. Our audit found that \$48,745 is allowable and \$747,548 is unallowable. The State paid the district \$772,068. The State will offset \$723,323 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

## **Views of Responsible Official**

We issued a draft audit report on May 8, 2013. Ann-Marie Gabel, Vice President, Administrative Services, responded by letter dated May 23, 2013 (Attachment), agreeing with the audit results except for Findings 1 and 2. This final audit report includes the district's response.

## **Restricted Use**

This report is solely for the information and use of the Long Beach Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

June 24, 2013

# Schedule 1— Summary of Program Costs July 1, 2007, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 523,211	\$ 523,211	\$ —	
Services and supplies	166,102	166,864	762	Finding 1
Total direct costs	689,313	690,075	762	
Indirect costs	243,810	177,212	(66,598)	Finding 2
Total direct and indirect costs	933,123	867,287	(65,836)	
Less authorized health service fees	(771,683)	(1,073,552)	(301,869)	Finding 3
Less offsetting savings/reimbursements	(3,054)	(2,050)	1,004	Finding 4
Subtotal	158,386	(208,315)	(366,701)	
Audit adjustments that exceed costs claimed	—	208,315	208,315	
Total program costs	<u>\$ 158,386</u>	—	<u>\$ (158,386)</u>	
Less amount paid by the State		(134,161)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (134,161)</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Salaries and benefits	\$ 741,535	\$ 741,535	\$ —	
Services and supplies	248,616	173,380	(75,236)	Finding 1
Less cost of providing current fiscal year services in excess of FY 1986-87	(3,200)	(3,200)	—	
Total direct costs	986,951	911,715	(75,236)	
Indirect costs	340,202	264,431	(75,771)	Finding 2
Total direct and indirect costs	1,327,153	1,176,146	(151,007)	
Less authorized health services fees	(932,230)	(1,189,463)	(257,233)	Finding 3
Less offsetting savings/reimbursements	(6,172)	(4,018)	2,154	Finding 4
Subtotal	388,751	(17,335)	(406,086)	
Audit adjustments that exceed costs claimed	—	17,335	17,335	
Total program costs	<u>\$ 388,751</u>	—	<u>\$ (388,751)</u>	
Less amount paid by the State		(388,751)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (388,751)</u>		



**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Salaries and benefits	\$ 809,201	\$ 809,201	\$ —	
Services and supplies	230,015	158,341	(71,674)	Finding 1
Less cost of providing current fiscal year services in excess of FY 1986-87	(14,110)	(14,110)	—	
Total direct costs	1,025,106	953,432	(71,674)	
Indirect costs	375,906	297,948	(77,958)	Finding 2
Total direct and indirect costs	1,401,012	1,251,380	(149,632)	
Less authorized health service fees	(1,130,643)	(1,190,074)	(59,431)	Finding 3
Less offsetting savings/reimbursements	(21,213)	(12,561)	8,652	Finding 4
Total program costs	<u>\$ 249,156</u>	48,745	<u>\$ (200,411)</u>	
Less amount paid by the State		(249,156)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (200,411)</u>		
<u>Summary: July 1, 2007, through June 30, 2010</u>				
Direct costs:				
Salaries and benefits	\$ 2,073,947	\$ 2,073,947	\$ —	
Services and supplies	644,733	498,585	(146,148)	
Less cost of providing current fiscal year services in excess of FY 1986-87	(17,310)	(17,310)	—	
Total direct costs	2,701,370	2,555,222	(146,148)	
Indirect costs	959,918	739,591	(220,327)	
Total direct and indirect costs	3,661,288	3,294,813	(366,475)	
Less authorized health service fees	(2,834,556)	(3,453,089)	(618,533)	
Less offsetting savings/reimbursements	(30,439)	(18,629)	11,810	
Subtotal	796,293	(176,905)	(973,198)	
Audit adjustments that exceed costs claimed	—	225,650	225,650	
Total program costs	<u>\$ 796,293</u>	48,745	<u>\$ (747,548)</u>	
Less amount paid by the State		(772,068)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (723,323)</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Unallowable services and supplies**

The district claimed unallowable services and supplies totaling \$146,148. The costs are unallowable for the following reasons:

- For fiscal year (FY) 2008-09 and FY 2009-10, the district claimed interfund transfers totaling \$142,425 that are identified in its expenditure ledger under account number 7301. The district's expenditure ledger indicates that the costs represent indirect costs attributable to the student health program. However, the district is reimbursed for mandate-related indirect costs by applying an allowable indirect cost rate in its mandated cost claims. Therefore, the additional indirect costs claimed as services and supplies are unallowable.
- The district claimed unallowable costs totaling \$10,982 for food and promotional items (e.g., bicycle water bottles, candles, and frames) that it provided to students at health fairs. Government Code section 17514 states that "costs mandated by the state" means any increased cost that the district is *required* to incur. The costs for food and promotional items are not costs that the district is required to incur to maintain health services at the level provided in the FY 1986-87 base year. Government Code section 17561, subdivision (d)(2)(B), states that the Controller may reduce any excessive or unreasonable claim.
- The district incorrectly reduced services and supplies claimed by \$3,390. The district excluded costs attributable to employee tuberculosis testing. However, the parameters and guidelines identify tuberculosis testing as an allowable activity.
- The district understated its student insurance costs by \$3,869. The district claimed 67% of its annual basic insurance coverage premium as mandate-related costs for the audit period.

The district provided documentation from its insurance company that identified the actual mandate-related costs for FY 2007-08 and FY 2008-09. The allowable mandate-related costs are comprised of the mandate-related portion of the basic coverage premium, plus the catastrophic coverage premium costs.

For FY 2009-10, the district's insurance company did not separately identify the mandate-related and non-mandate-related portions of the basic coverage premium costs. Therefore, we calculated mandate-related basic coverage premium costs based on the percentage of on-campus student claims paid compared to total claims paid. We also allowed the catastrophic coverage premium costs.

The following table shows the calculation of the allowable percentage of on-campus student claims paid for FY 2009-10:

(A)	(B)	(C)
On-Campus Paid Claims	Total Paid Claims	Allowable Percentage ((A) ÷ (B))
<u>\$ 62,656</u>	<u>\$ 97,181</u>	<u>64.47%</u>

The following table shows the calculation of allowable student insurance costs and the resulting audit adjustment for student insurance:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Student insurance:				
Basic coverage premium costs			\$ 123,208	
Allowable percentage			× 64.47%	
Allowable basic coverage premium costs	\$ 70,974	\$ 74,153	79,432	
Catastrophic coverage premium costs	<u>1,586</u>	<u>1,586</u>	<u>1,745</u>	
Allowable student insurance costs	72,560	75,739	81,177	\$ 229,476
Less claimed costs	<u>(69,144)</u>	<u>(78,110)</u>	<u>(78,353)</u>	<u>(225,607)</u>
Audit adjustment, student insurance	<u>\$ 3,416</u>	<u>\$ (2,371)</u>	<u>\$ 2,824</u>	<u>\$ 3,869</u>

The following table summarizes the audit adjustment for services and supplies:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Interfund transfers	\$ -	\$ (69,080)	\$ (73,345)	\$ (142,425)
Food and promotional items	(3,658)	(5,264)	(2,060)	(10,982)
Tuberculosis testing	1,004	1,479	907	3,390
Student insurance	<u>3,416</u>	<u>(2,371)</u>	<u>2,824</u>	<u>3,869</u>
Audit adjustment	<u>\$ 762</u>	<u>\$ (75,236)</u>	<u>\$ (71,674)</u>	<u>\$ (146,148)</u>

The parameters and guidelines state:

...Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities....

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities....Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate....

### Recommendation

We recommend that the district claim only those services and supplies that are supported by its accounting records, reimbursable under the mandated program, and required to maintain health services at the level provided in FY 1986-87.

### District's Response

The district agreed with the audit adjustments related to interfund transfers, tuberculosis testing, and student insurance. The district disagreed with the audit adjustment related to food and promotional items. The district's response is as follows:

The draft audit report cites Government Code section 17514 as a reason to disallow the health fair costs as not required. This conclusion contradicts the parameters and guidelines. . . . Since the Commission on State Mandates determined that health fair activities are reimbursable, then they are necessary, which invalidates the Controller's reliance upon Section 17514.

The draft audit report also cites Government Code Section 17561 which allows the Controller to audit and reduce any excessive or unreasonable claims. Since the parameters and guidelines allow reimbursement for the health fair activities, the costs associated with the activity cannot be unreasonable per se. However, the draft audit report concludes that the claimed health fair costs are "not required," thus any health fair cost would be ostensibly excessive. The conclusion is subjective because the Controller has not cited a published standard for the type and scope of allowable health fair activity costs. The audit report makes no factual claims to support the adjustment on the ground that the claimed costs were excessive. Absent a fact-based finding that the items purchases were too expensive or some similar finding, there is no basis for the adjustment on the ground that the claimed costs were excessive.

### SCO's Comment

The finding and recommendation are unchanged. The district believes that our audit adjustment contradicts the parameters and guidelines. We disagree. Government Code section 17561 states that the SCO may reduce any excessive or unreasonable claim. There is a direct correlation between Government Code sections 17514 and 17561. Although the parameters and guidelines do allow health fairs, the district essentially asserts that any related expense is reimbursable, regardless of necessity or reasonableness.

The parameters and guidelines identify the reimbursable activities of health talks/fairs for the purpose of providing information on sexually transmitted diseases, drugs, AIDS, child abuse, birth control/family planning, and smoking cessation. The district is not required to purchase food or promotional items to complete the activity of providing health information to those who inquire. Therefore, these are not costs that the district is *required* to incur (Government Code section 17514), nor are the costs reasonable (Government Code section 17561).

**FINDING 2—  
Unallowable indirect  
costs**

The district claimed unallowable indirect costs totaling \$220,327. The district did not calculate its indirect cost rates in accordance with the parameters and guidelines, and the SCO's claiming instructions. We identified the following discrepancies:

- The district did not allocate direct and indirect costs as specified in the SCO's claiming instructions.
- For each fiscal year, the district calculated its indirect cost rates based on costs from the preceding fiscal year, rather than current year actual costs.
- For FY 2007-08 and FY 2008-09, the district calculated its indirect cost rates using a base of total direct costs. However, the claiming instructions direct districts to use a base comprised of salaries and benefits.
- For FY 2009-10, the district correctly calculated its indirect cost rate using a base of salaries and benefits. However, it incorrectly calculated indirect costs claimed by applying the rate to total direct costs.

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Allowable salaries and benefits	\$ 523,211	\$ 741,535	\$ 809,201	
Allowable indirect cost rate	× 33.87%	× 35.66%	× 36.82%	
Allowable indirect costs	177,212	264,431	297,948	
Less indirect costs claimed	(243,810)	(340,202)	(375,906)	
Audit adjustment	\$ (66,598)	\$ (75,771)	\$ (77,958)	\$ (220,327)

The parameters and guidelines state, "Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions."

For all fiscal years, the SCO's claiming instructions require the district to claim indirect costs using the SCO's FAM-29C methodology. The claiming instructions specify that the FAM-29C methodology uses a direct cost base of salaries and benefits.

**Recommendation**

We recommend that the district claim indirect costs using indirect cost rates computed in accordance with the FAM-29C methodology specified in the SCO's claiming instructions.

### District's Response

The draft audit report states that the District did not comply with the claiming instructions for several reasons:

1. *The district did not allocate direct and indirect costs as specified in the SCO's claiming instructions.*

The District disagrees with some of the Controller's overhead allocation choices. . . .

2. *For each fiscal year, the district calculated its indirect cost rates based on costs from the preceding fiscal year, rather than current year actual costs.*

The District rate was calculated for all fiscal years based on the prior year CCFS-311 and prior year depreciation costs from the audited financial statements. . . . [T]he Controller uses the current year CCFS-311 and current year depreciation costs from the audited financial statement (which are usually not available to the District at time of claim preparation).

3. *For FY 2007-08 and FY 2008-09, the district calculated its indirect cost rates using a base of total direct costs. However, the claiming instructions direct districts to use a base comprised of salaries and benefits.*

This was a retroactive policy change by the Controller. . . .

4. *For FY 2009-10, the district correctly calculated its indirect cost rate using a base of salaries and benefits. However, it incorrectly calculated indirect costs claimed by applying the rate to total direct costs.*

This was a retroactive policy change by the Controller. . . .

The overall difference in the reported and audited rates is less than a 2% change each year and is not significant considering all of the variables involved. However, the Controller's claiming instructions were never adopted as rules or regulations and have no force of law, so adjustments based on the claiming instructions as "rules" are not enforceable.

The parameters and guidelines for the Health Fee Elimination program (as amended on May 25, 1989), which are the legally enforceable standards for claiming costs, state that: "Indirect costs *may be claimed* in the manner described by the Controller in his claiming instructions: (emphasis added). Therefore, the parameters and guidelines *do not require* that indirect costs be claimed in the manner described by the Controller. Instead, the burden is on the Controller to show that the indirect cost method or allocations used by the District is excessive or unreasonable, which is the only mandated cost audit standard in statute (Government Code Section 17651(d)(2)) (*sic*). If the Controller wishes to enforce different audit standards for mandated cost reimbursement, the Controller should comply with the Administrative Procedure Act.

SCO's Comment

The finding and recommendation are unchanged. Our comments are as follows:

- The district states that it “disagrees with some of the Controller’s overhead allocation choices. . . .” We did not calculate audited indirect cost rates based on “choices.” The calculated indirect cost rates are based on the direct and indirect cost allocations specified in the SCO’s claiming instructions. The district did not specify those allocations for which it disagrees, nor did it identify the reason(s) for disagreement.
- The district states that current year CCFS-311 and audited financial statements are “usually not available to the district at time of claim preparation.” We disagree. The phrase “at time of claim preparation” is vague and not relevant. The district’s CCFS-311 and audited financial statements were available well before the mandated cost claim due dates. The table below shows the claim due dates pursuant to Government Code section 17560, and the dates of the district’s CCFS-311 reports and audited financial statements:

Fiscal Year	Claim Due Date	CCFS-311	Financial Statements
2007-08	February 15, 2009	October 2, 2008	November 11, 2008
2008-09	February 15, 2010	October 19, 2009	November 16, 2009
2009-10	February 15, 2011	October 6, 2010	December 2, 2010

- The district states that the requirements to (1) use salaries and benefits as the FY 2007-08 and FY 2008-09 direct cost base, and (2) calculate FY 2009-10 allowable indirect costs by applying the indirect cost rate to mandate-related salaries and benefits, resulted from a “retroactive policy change.” We disagree. The SCO’s claiming instructions from FY 2007-08 forward identify the correct direct cost base as salaries and benefits. There was no retroactive application of the specified direct cost base.
- The district identified the claimed and audited indirect cost rates and opined that the difference between the rates for each fiscal year “is not significant considering all of the variables involved.” We disagree. We noted that the district:
  - Provided no specificity regarding its reference to “all of the variables involved.” There are no variables involved in calculating an indirect cost rate in accordance with the SCO’s claiming instructions.
  - Failed to disclose that it calculated the FY 2007-08 and FY 2008-09 claimed indirect cost rates using a direct cost base of total direct costs. We calculated the audited indirect cost rates using a direct cost base of salaries and benefits. Therefore, the claimed and audited rates are not homogeneous for comparison.

- Failed to acknowledge that the FY 2009-10 audit adjustment results not just from a difference in the audited indirect cost rate, but also the district’s incorrect application of the indirect cost rate to total direct costs rather than salaries and benefits.
- The district cites parameters and guidelines dated May 25, 1989, which do not apply to the audit period. The parameters and guidelines amended January 29, 2010, are effective for FY 2005-06 forward. The claim preparation instructions are consistent between the two versions for indirect costs. We disagree with the district’s interpretation of the parameters and guidelines. The phrase “may be claimed” permits the district to claim indirect costs. However, if the district claims indirect costs, then the parameters and guidelines require that it comply with the SCO’s claiming instructions.
- The district asserts that Government Code section 17561, subdivision (d)(2), which allows the SCO to reduce any claim that it determines is excessive or unreasonable, is “the only mandated cost audit standard in statute.” We disagree. Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district’s records to verify actual mandate-related costs *and* reduce any claim that the SCO determines is excessive or unreasonable. In addition, Government Code section 12410 states, “The Controller shall audit all claims against the state, and may audit the disbursement of any state money for correctness, legality, and for sufficient provisions of law for payment.”

**FINDING 3—  
Understated  
authorized health  
service fees**

The district understated authorized health service fees by \$618,533.

The district understated authorized health service fees for FY 2007-08 and FY 2008-09 because it reported actual receipts rather than authorized fees. We also noted that the district did not charge all students the full authorized fee amount for FY 2007-08 and FY 2008-09.

For FY 2009-10, the district calculated authorized health service fees. However, the district used student enrollment data that did not agree with data that the district submitted to the California Community Colleges Chancellor’s Office (CCCCO).

Mandated costs do not include costs that are reimbursable from authorized health service fees. Government Code section 17514 states that “costs mandated by the state” means any increased costs that a school district is *required* to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; or (2) are attending a community college under an approved apprenticeship training program.



The CCCCCO identified the fees authorized by Education Code section 76355, subdivision (a). The following table summarizes the authorized fees:

Authorized Health Service Fee Rates		
Fiscal Year	Summer Session	Fall and Spring Semesters
2007-08	\$13	\$16
2008-09	\$14	\$17
2009-10	\$14	\$17

For each school term, the district reported student enrollment data to the CCCCCO. Based on the student data that the district reported, the CCCCCO identified enrollment data from its management information system (MIS). The CCCCCO identified the district's enrollment based on its MIS data element STD7, codes A through G. The CCCCCO eliminated any duplicate students based on their Social Security numbers. CCCCCO data element and code definitions are available at <http://www.cccco.edu/SystemOffice/Divisions/TechResearchInfo/MIS/DED/tabid/266/Default.aspx>. The district did not identify any students that it excluded from the health service fee pursuant to Education Code section 76355, subdivision (c)(1).

The following table shows the authorized health service fee calculation and audit adjustment:

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2007-08</u>				
Number of enrolled students	13,616	28,654	27,380	
Authorized health fee rate	x \$(13)	x \$(16)	x \$(16)	
Authorized health service fees	<u>\$ (177,008)</u>	<u>\$ (458,464)</u>	<u>\$ (438,080)</u>	\$ (1,073,552)
Less authorized health service fees claimed				<u>771,683</u>
Audit adjustment, FY 2007-08				<u>(301,869)</u>
<u>Fiscal Year 2008-09</u>				
Number of enrolled students	13,490	29,291	29,568	
Authorized health fee rate	x \$(14)	x \$(17)	x \$(17)	
Authorized health service fees	<u>\$ (188,860)</u>	<u>\$ (497,947)</u>	<u>\$ (502,656)</u>	(1,189,463)
Less authorized health service fees claimed				<u>932,230</u>
Audit adjustment, FY 2008-09				<u>(257,233)</u>
<u>Fiscal Year 2009-10</u>				
Number of enrolled students	15,094	29,251	28,323	
Authorized health fee rate	x \$(14)	x \$(17)	x \$(17)	
Authorized health service fees	<u>\$ (211,316)</u>	<u>\$ (497,267)</u>	<u>\$ (481,491)</u>	(1,190,074)
Less authorized health service fees claimed				<u>1,130,643</u>
Audit adjustment, FY 2009-10				<u>(59,431)</u>
Total audit adjustment				<u>\$ (618,533)</u>

Recommendation

We recommend that the district:

- Deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCCCO data element STD7, codes A through G.
- Maintain documentation that identifies the number of student excluded from the health service fee based on Education Code section 76355, subdivision (c)(1).
- Charge students the authorized fee amount for each school term.

District's Response

The district did not dispute the audit finding.

**FINDING 4—  
Overstated offsetting  
savings/reimbursements**

The district overstated offsetting savings/reimbursements by \$11,810 for the following reasons:

- For the audit period, the district incorrectly reduced its claims by \$3,390 to account for reimbursement from the district to the health center for employee tuberculosis (TB) tests performed by the health center.
- For FY 2008-09 and FY 2009-10, the district provided physical exams and measles/mumps/rubella (MMR) immunizations. The district did not provide these services in the FY 1986-87 base year. The district reduced total direct costs claimed by \$3,200 in FY 2008-09 and \$9,125 in FY 2009-10 to exclude costs attributable to physical exams and MMR immunizations. The reduction to total direct costs resulted in a corresponding reduction to indirect costs claimed.

The district also reported offsetting savings/reimbursements that included revenue attributable to physical exams in FY 2008-09 and FY 2009-10, and revenue attributable to MMR Immunizations in FY 2009-10. The total revenue reported for physical exams and MMR immunizations was less than the corresponding costs that the district excluded from total direct costs claimed. Therefore, the district was not required to report the physical exam and MMR immunization revenue on its mandated cost claims. As a result, the district overstated its offsetting savings/reimbursements by \$6,775 for physical exams and \$1,645 for MMR immunizations.

The following table summarizes the audit adjustment:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Offsetting savings/reimbursements:				
Employee TB tests	\$ 1,004	\$ 1,479	\$ 907	\$ 3,390
Physical exams	-	675	6,100	6,775
MMR immunizations	-	-	1,645	1,645
Audit adjustment	<u>\$ 1,004</u>	<u>\$ 2,154</u>	<u>\$ 8,652</u>	<u>\$ 11,810</u>

The parameters and guidelines state:

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

#### Recommendation

We recommend that the district continue to reduce total direct and indirect costs claimed for costs attributable to services that the district did not provide in the FY 1986-87 base year. We also recommend that the district not report revenue attributable to excess services when the revenue is less than the corresponding reduction to direct and indirect costs.

#### District's Response

The district concurred with the audit adjustment.

### **OTHER ISSUE— Public records request**

The district's response included a public records request. The district's response and SCO's comment are as follows:

#### District's Response

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to Finding 1 (regarding student health fair expenditures) and Finding 2 (indirect cost rate calculation standards).

#### SCO's Comment

The SCO provided the district the requested records by separate letter dated May 30, 2013.

**Attachment—  
District's Response to  
Draft Audit Report**

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*Board of Trustees*  
Mark J. Bowen  
Dr. Thomas J. Clark  
Jeffrey A. Kellogg  
Douglas W. Otto  
Roberto Uranga

*Superintendent-President*  
Eloy O. Oakley

Long Beach City College • Long Beach Community College District

4901 East Carson Street • Long Beach, California 90808

May 23, 2013

Sent: CERTIFIED MAIL – RETURN  
RECEIPT REQUESTED

Mr. Jim L. Spano, Chief  
Mandated Costs Audits Bureau  
Division of Audits  
California State Controller  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Chapter 1, Statutes of 1984, 2<sup>nd</sup> E. S.  
Chapter 1118, Statutes of 1987  
Health Fee Elimination Program  
Fiscal Years: 2007-08, 2008-09, and 2009-10  
Long Beach Community College District

Dear Mr. Spano:

This letter is the response of the Long Beach Community College District to the draft audit report for the above-referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office, dated May 8, 2013.

### **Finding 1 - Unallowable services and supplies**

The draft audit report concludes that the District claimed \$146,148 in unallowable services and supplies. This adjustment includes four categories of disallowed costs.

#### Interfund Transfers <\$142,425>

For Fiscal Years 2008-09 and FY 2009-10, the audit identifies interfund transfers totaling \$142,425 for indirect costs attributable to the student health services program. Since the District is reimbursed for mandate-related indirect costs in the mandate claim by applying an allowable indirect cost rate to total direct mandate costs, the District agrees that the interfund transfer amount should be excluded from the annual claims.

#### **B. Health Fair Expenses <\$10,982>**

The draft audit asserts that \$10,982 incurred by the District to purchase food and promotional items for the student health fair and other student events are unallowable costs because these are not expenditures the District is required to make in order to maintain the base-year level of health services.

The draft audit report cites Government Code Section 17514 as a reason to disallow the health fair costs as not required. This conclusion contradicts the parameters and guidelines which include health fairs as reimbursable activities in Section V. Since the Commission on State Mandates determined that health fair activities are reimbursable, then they are necessary, which invalidates the Controller's reliance upon Section 17514.

The draft audit report also cites Government Code Section 17561 which allows the Controller to audit and reduce any excessive or unreasonable claims. Since the parameters and guidelines allow reimbursement for the health fair activities, the costs associated with the activity cannot be unreasonable per se. However, the draft audit report concludes that the claimed health fair costs are "not required," thus any health fair cost would be ostensibly excessive. The conclusion is subjective because the Controller has not cited a published standard for the type and scope of allowable health fair activity costs. The audit report makes no factual claims to support the adjustment on the grounds that the claimed costs were excessive. Absent a fact-based finding that the items purchased were too expensive or some similar finding, there is no basis for the adjustment on the grounds that the claimed costs were excessive.

Because there is no question that the student health fair events are appropriate, and no evidence that the costs were excessive, the adjustments should be withdrawn.

TB Tests-Employees \$3,390 (increase)

See Finding 4.

Student Insurance \$3,869 (increase)

The District concurs that insurance costs for the athletics program are not reimbursable and that it is appropriate to exclude the athletics portion of the student insurance premiums from the claim. The District claimed \$225,607 in insurance costs for the three years. The adjustment amount is about 1.7% of the total cost claimed, and a net increase in costs. In the absence of more precise information regarding the assignment of risks among several fiscal years, the auditor's allocation of the portion of the insurance premiums applicable to the athletics program is satisfactory.

## **Finding 2 - Unallowable indirect costs**

The draft audit report concludes that the District overstated indirect costs by \$220,327 for the three fiscal years included in the audit.

<u>Claimed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>
35.37%	33.87%	<1.50%>
34.47%	35.66%	1.19%
36.67%	36.82%	0.15%

The draft audit report states that the District did not comply with the claiming instructions for several reasons:

1. *The district did not allocate direct and indirect costs as specified in the SCO's claiming instructions.*

The District disagrees with some of the Controller's overhead allocation choices, but those differences are minor.

2. *For each fiscal year, the district calculated its indirect cost rates based on costs from the preceding fiscal year, rather than current year actual costs.*

The District rate was calculated for all fiscal years based on the *prior year* CCFS-311 and prior year depreciation costs from the audited financial statements. This is the same source used by the Controller, except that the Controller uses the *current year* CCFS-311 and current year depreciation costs from the audited financial statement (which are usually not available to the District at time of claim preparation). Regardless, the year-to-year difference in the calculated rates is not significant.

3. *For FY 2007-08 and FY 2008-09, the district calculated its indirect cost rates using a base of total direct costs. However, the claiming instructions direct districts to use a base comprised of salaries and benefits.*

This was a retroactive policy change by the Controller. The District has since changed to this method beginning FY 2009-10.

4. *For FY 2009-10, the district correctly calculated its indirect cost rate using a base of salaries and benefits. However, it incorrectly calculated indirect costs claimed by applying the rate to total direct costs.*

This was a retroactive policy change by the Controller. The District has since changed to this method beginning FY 2010-11.

The overall difference in the reported and audited rates is less than a 2% change each year and is not significant considering all of the variables involved. However, the Controller's claiming instructions were never adopted as rules or regulations and have no force of law, so adjustments based on the claiming instructions as "rules" are not enforceable.

The parameters and guidelines for the Health Fee Elimination program (as amended on May 25, 1989), which are the legally enforceable standards for claiming costs, state that: "Indirect costs *may be claimed* in the manner described by the Controller in his claiming instructions" (emphasis added). Therefore, the parameters and guidelines *do not require* that indirect costs be claimed in the manner described by the Controller. Instead, the burden is on the Controller to show that the indirect cost method or allocations used by the District is excessive or unreasonable, which is the only mandated cost audit standard in statute (Government Code Section 17651(d)(2)). If the Controller wishes to enforce different audit standards for mandated cost reimbursement, the Controller should comply with the Administrative Procedure Act.

Since the draft audit report has stated no legal basis to disallow the indirect cost rate calculation method used by the District, and has not shown a factual basis to reject the District's rates as unreasonable or excessive, the adjustment should be withdrawn.

### **Finding 3 - Understated authorized health service fees**

The draft audit report states that "authorized" student health service fee revenues were understated by \$618,533 for the audit period. The magnitude of the adjustment is due to the fact that the District reported for FY 2007-08 and FY 2008-09 the actual student health service fees that it collected rather than "authorized" student health service fees that could have been collected. The auditor calculated "authorized" student health service fee revenues, that is, the student health service fees collectible based on the highest student health service fee chargeable, rather than the full-time or part-time student health service fee actually charged to the student and actually collected. This means that the actual revenue amounts claimed by the District are irrelevant to the method used for the audit adjustment.

This legal issue of actual revenue versus collectible fees persists from prior District audits. It was the subject of an ongoing statewide dispute. However, the *Clovis* Appellate Court decision in September 2010 determined that it was and is appropriate for the Controller to calculate the collectible student health service fees by imputing the highest fee chargeable to all nonexempt students, full or part-time, and at all instruction locations without regard to the scope of services actually available at remote locations. This District does not dispute this finding of law and now complies with the court decision. Since the court case also applies retroactively, we also have to accept the Controller's method for these audit years.

The other source of the adjustment was the factual matter of the student enrollment statistics. The Controller utilized the Chancellor's Office MIS data. This issue was also the subject of an ongoing statewide dispute. However, on October 27, 2011, the Commission on State Mandates decided seven Health Fee Elimination incorrect reduction claims which included this issue and determined that, in the absence of claimant evidence to the contrary, the Chancellor's MIS data is the preferred source of enrollment statistics. The District has no such evidence to the contrary at this time. This District does not dispute this administrative law finding and will comply for future annual claims.

### **Finding 4 - Overstated offsetting savings/reimbursement**

The draft audit report concludes that the District overstated offsetting revenues by \$11,810 for the three fiscal years included in the audit. Claimants have the choice of deleting the current period direct cost of services in excess of the FY 1986-87 base-year or offsetting revenue derived from those services. This adjustment corrects those various cost and revenue offsets and increases net reimbursement to the District. The District concurs with the adjustment.



Mr. Jim L. Spano, Chief

May 23, 2013

## **OTHER MATTERS**

### **Public Records Request**

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to Finding 1 (regarding student health fair expenditures) and Finding 2 (indirect cost rate calculation standards).

Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefor. Also, as required when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Ann-Marie Gabel, Vice-President, Administrative Services  
Long Beach Community College District

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**